



## **Management's Discussion and Analysis of Financial Condition and Results of Operations** **For the First Quarter Ended March 31, 2009**

*(\$000 CAD)*

This document has been prepared for the purpose of providing management's discussion and analysis ("MD&A") of our financial position and results of operations for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. The MD&A should be read in conjunction with our unaudited consolidated financial statements and accompanying notes for the three month period ended March, 31, 2009, Enersource Corporation's ("Enersource") audited consolidated financial statements for fiscal year ended December 31, 2008 and other securities filings available on [www.sedar.com](http://www.sedar.com). Enersource reports its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") considering regulatory requirements where applicable.

Throughout this MD&A, "our", "us", "we", "Company", "Corporation" and Enersource, refer to Enersource Corporation and its subsidiaries. The abbreviation "Qtr" refers to the relevant quarter within the fiscal year.

### ***GENERAL***

The financial statements as presented include results for both the regulated and non-regulated business activities. The Enersource Corporation group of companies includes Enersource, Enersource Hydro Mississauga Inc. ("Enersource Hydro"), Enersource Services Inc., Enersource Telecom Inc. ("Telecom"), Enersource Hydro Mississauga Services Inc. ("EHM Services"), Enersource Technologies Inc. and First Source Energy Corporation ("First Source").

Enersource is a holding company established in response to the restructuring and deregulation of Ontario's electricity industry. Enersource's principal operating subsidiary, Enersource Hydro, is the regulated electricity distributor for the City of Mississauga. The *Energy Competition Act, 1998*, and its enabling regulations, require the separation of regulated distribution business activities from non-regulated business activities. Enersource has organized other affiliated companies and related entities for the purpose of operating its non-distribution related businesses.

EHM Services is a non-regulated subsidiary of Enersource with a primary business focus on providing electrical infrastructure design, procurement, construction, commissioning, and operating and maintenance services to businesses and other utilities. EHM Services also provides a range of utility and industry services and products including street light asset design, construction and maintenance.

Telecom and First Source remain dormant corporations as all major assets have been divested.

### ***FORWARD LOOKING INFORMATION***

Certain statements made in the MD&A, including, without limitation, statements relating to Enersource's expectations concerning future revenues and earnings, market conditions and the sufficiency of capital and liquidity, constitute forward-looking statements. Enersource believes these statements to be true based on its knowledge as at May 19, 2009. These forward-looking statements are subject to risks, uncertainties, and other factors including, but not limited to, regulatory risk and electricity supply risk, many of which are beyond Enersource's control, which may cause future results to differ materially from those expected. Enersource does not undertake or accept any obligation to release publicly any updates or

revisions to any forward-looking statements to reflect any change in Enersource's expectations, except as prescribed by applicable securities laws.

***RATE REGULATION***

Enersource Hydro is regulated by the Ontario Energy Board ("OEB") under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB has the power to establish electricity prices under a regulated price plan ("RPP"), as summarized in the following chart, for low volume consumers and designated consumers who do not choose an electricity retailer. The OEB may adjust the electricity commodity prices and consumption thresholds charged to these RPP consumers every six months as required.

***Regulated Price Plan:***

	<u>Jan 2008 -Apr 2008</u>	<u>May 2008 -Oct 2008</u>	<u>Nov 2008 -Mar 2009</u>
Residential Consumption Threshold	1,000 kWh	600 kWh	1,000 kWh
Non-Residential Consumption Threshold	750 kWh	750 kWh	750 kWh
Price below threshold	\$.050/kWh	\$.050/kWh	\$.056/kWh
Price above threshold	\$.059/kWh	\$.059/kWh	\$.065/kWh

***Distribution Rates:***

Enersource Hydro submitted an electricity distribution rate re-basing application to the OEB on August 23, 2007 for the rate period May 1, 2008 through April 30, 2009. A settlement was negotiated with intervenors and was accepted by the OEB on January 4, 2008. The final distribution rates and charges for 2008 based upon the settlement were approved on April 18, 2008. The impact of this decision on the total bill of an average residential customer consuming 1,000 kWh of electricity per month was a decrease of 2.9%, which consists of an increase in base distribution rates of 0.4% and a decrease of 3.3% due to a refund of regulatory liabilities. The net impact of the new distribution rates combined with an increase in electricity pricing and price thresholds effective May 1, 2008, reduced the total bill of an average residential customer consuming 1,000 kWh of electricity per month by 0.6%.

In November 2008, Enersource Hydro submitted a formula based rate application to the OEB for the rate period May 1, 2009 through April 30, 2010. On March 16, 2009, the OEB released its decision and order on this rate application. The net impact of the new distribution rates combined with an increase in electricity pricing and price thresholds effective May 1, 2009 will increase the total bill of an average residential customer consuming 1,000 kWh of electricity per month by 7.3%.

## **RESULTS OF OPERATIONS**

### **Summary:**

Consolidated net income for the three months ended March 31, 2009 was \$4,552 as compared to net income of \$4,268 for the first quarter of 2008. The increase of \$284 was primarily due to the effect of Enersource Hydro's distribution rate increase on May 1, 2008, higher revenues relating to conservation and demand management programs and reduced interest expense. This impact was partially offset by higher operations, maintenance and administration costs combined with reduced interest income and higher amortization of capital assets in the 2009 period as compared to 2008.

The consolidated cash position of Enersource at March 31, 2009 was \$78,131 representing an increase of \$2,026 over the 2008 year end position.

### **Revenues:**

	<b>1st Qtr 2009</b>	<b>1st Qtr 2008</b>	<b>Change \$</b>
<b>Electricity Pass Through</b>	132,771	135,977	(3,206)
<b>Distribution Revenue</b>	28,914	27,259	1,655
<b>Recovery (refund) of regulatory assets (liabilities)</b>	(1,767)	1,606	(3,373)
<b>Services Revenue</b>	2,328	1,461	867
<b>Other Revenue</b>	1,053	913	140
<b>Revenue</b>	<u>163,299</u>	<u>167,216</u>	<u>(3,917)</u>

Energy revenues consist mainly of electricity passed through at cost to standard service supply customers and retailer customers. All energy revenues were generated from regulated operations. For the first quarter ended March 31, 2009, electricity pass through revenue was \$132,771 as compared to \$135,977 for the first quarter of 2008, representing a decrease of \$3,206 or 2.4%. This decline was primarily due to a decline of 3.1% in energy consumption in the 2009 period, which was partially offset by a 0.7% increase in electricity prices in 2009 as compared to the first quarter of 2008.

Distribution related revenue was \$28,914 for the first quarter of 2009 compared to \$27,259 in the 2008 period, representing an increase of \$1,655 or 6.1%. The increase in distribution revenue was primarily due to Enersource Hydro's rate adjustment implemented May 1, 2008 of \$1,489 and year over year customer growth of \$332. This increase was partially offset by a net decline of \$166 in electricity consumption by residential and small commercial customers and energy demand by larger customers in the 2009 period as compared to 2008.

The net refund of regulatory liabilities was \$1,767 for the first quarter of 2009 as compared to a 2008 regulatory asset recovery of \$1,606.

Services revenue from non-regulated operations was generated from street lighting services and engineering design and construction contracts. An increase of \$867 in services revenue was the result of higher street lighting contract revenue for the first quarter of 2009.

Other revenues are mainly from distribution operations and include late payment charges, set-up charges, pole rental fees and funding by the Ontario Power Authority ("OPA") for conservation programs. Other revenues increased by \$140 over the first quarter of 2008 primarily due to higher conservation and

demand management program funding provided by the OPA and the Ontario Ministry of Energy and Infrastructure (“MEI”).

***Operating Expenses:***

	<b>1st Qtr 2009</b>	<b>1st Qtr 2008</b>	<b>Change \$</b>
<b>Energy Purchases</b>	132,771	135,977	3,206
<b>Cost of Services</b>	2,014	1,155	(859)
<b>Operations, Maintenance and Administration</b>	10,937	9,768	(1,169)
<b>Amortization of Capital Assets</b>	7,959	7,805	(154)
<b>Amortization of Intangible Assets</b>	128	240	112
<b>Amortization of Regulatory (Liabilities) Assets</b>	(1,767)	1,606	3,373
<b>Expenses</b>	<u>152,042</u>	<u>156,551</u>	<u>4,509</u>

Energy purchase expense, which is entirely attributed to regulated operations and is passed through to customers at cost, declined by \$3,206 or 2.4% for the first quarter ended March 31, 2009 as compared to the corresponding quarter of 2008 due to a decline in consumption in the 2009 period, which was partially offset by higher electricity market pricing.

The cost of services in non-regulated operations of \$2,014 was \$859 higher for the quarter ended March 31, 2009 than for the corresponding quarter of 2008 as a result of increased street lighting contract revenue for the first quarter of 2009.

Consolidated operations, maintenance and administration costs, or the overhead costs incurred to manage the operations of the regulated and non-regulated companies, increased by \$1,169 or 12.0% for the quarter ended March 31, 2009 from the corresponding quarter of 2008. Enersource Hydro costs increased by \$1,266 primarily due to an additional provision of \$479 for bad debts, combined with an increase of \$213 in conservation and demand management expenditures and an increase of \$91 in environmental rehabilitation costs, as well as general economic increases in manpower and overhead expenses.

Amortization of capital assets increased by \$154 for the quarter ended March 31, 2009 over the related 2008 period primarily due to the ongoing investment in electricity distribution infrastructure assets.

Amortization of Enersource Hydro’s intangible assets decreased by \$112 for the quarter ended March 31, 2009 from the corresponding period of 2008 primarily due to changing the amortization rate from two years to ten years on certain computer software assets, effective October 1, 2008.

Amortization of Enersource Hydro’s regulatory balances that were previously deferred on the balance sheet declined by \$3,373 for the quarter ended March 31, 2009 over the corresponding period of 2008. The amount of amortization of regulatory balances is equivalent to the amount recorded in electricity distribution revenue.

***Operating Income:***

	<u>1st Qtr 2009</u>	<u>1st Qtr 2008</u>	<u>Change \$</u>
<b>Revenue</b>	163,299	167,216	(3,917)
<b>Operating Expenses</b>	152,042	156,551	4,509
<b>Operating Income</b>	<u>11,257</u>	<u>10,665</u>	<u>592</u>

Consolidated operating income rose by \$592 in the first quarter of 2009 over the corresponding 2008 quarter. This increase was due to the net effect of an increase in Enersource Hydro's distribution revenue and an increase of \$140 in other revenue which was partially offset by a \$1,169 increase in operations, maintenance and administration expenses and an increase of \$154 in amortization of capital assets.

***Non-Operating Revenue (Expense):***

	<u>1st Qtr 2009</u>	<u>1st Qtr 2008</u>	<u>Change \$</u>
<b>Interest Income</b>	280	962	(682)
<b>Interest Expense</b>	(4,526)	(4,946)	420
<b>Foreign Exchange Gain</b>	131	196	(65)
<b>Non-operating income (expense)</b>	<u>(4,115)</u>	<u>(3,788)</u>	<u>(327)</u>

Interest income for the quarter ended March 31, 2009 declined by \$682 from the corresponding period of 2008 as average interest rates fell below the corresponding 2008 rates. This impact was partially offset by a higher average cash and cash equivalent position in the 2009 quarter than the corresponding period in 2008.

Enersource Hydro's interest expense for the quarter ended March 31, 2009 was primarily attributable to the Borealis – Enersource series bonds, interest on customer deposits and regulatory liabilities. The amount of interest expense relating to the Borealis – Enersource series bonds was \$4,498 for both three-month periods.

For the quarter ended March 31, 2009, Enersource Hydro had a foreign exchange gain of \$131 on U.S. dollar cash and cash equivalents as compared to a foreign exchange gain of \$196 in 2008. In 2007, Enersource Hydro purchased U.S. dollars to mitigate foreign exchange risk relating to the implementation of a new Customer Care and Billing System where a substantial portion of the cost is to be paid in U.S. currency.

***Payments in Lieu of Corporate Income Taxes:***

	<u>1st Qtr 2009</u>	<u>1st Qtr 2008</u>	<u>Change \$</u>
<b>Payments in lieu of corporate income taxes</b>	2,588	2,612	24

For the quarter ended March 31, 2009, Enersource had payments in lieu of corporate income taxes (PILs) of \$2,588. The decline in PILs during the first quarter of 2009 as compared to the same quarter in 2008 was primarily due to a corporate tax rate of 33.0% in 2009 as compared to 33.5% in 2008. The adoption of CICA Handbook Section 3465, "Income Taxes" reduced PILs by \$372 in the first quarter of 2009.

### ***Consolidated Cash Flows***

	<b>1st Qtr 2009</b>	<b>1st Qtr 2008</b>
Increase (decrease) in cash and cash equivalents	2,026	13,112

During the quarter ended March 31, 2009, net cash inflow was \$2,026 as compared to net inflow of \$13,112 for the corresponding period of 2008. The net cash inflow in the first quarter of 2009 was driven by an increase in operating activities of \$14,391 which was primarily offset by outflows of \$11,555 and \$1,298 to finance capital and intangible asset additions. The net cash inflow in the 2008 period was driven primarily by an increase in operating activities of \$21,309 and outflows of \$7,905 and \$839 to finance capital and intangible asset additions.

### ***Capital Expenditures***

Enersource's capital expenditures were primarily attributable to investments in distribution system infrastructure assets in response to electricity demand and reliability requirements within Mississauga. Capital asset investment strategies are developed and reviewed continuously to maintain pace with the demand for electricity and to ensure that the operating performance of Enersource's distribution system, the condition of its assets and its customer service levels are all maintained to the highest industry standards.

Consolidated capital asset and intangible asset additions for the three-months ended March 31, 2009 were \$10,823 as compared to \$6,947 for the corresponding period in 2008. During 2009, distribution system capacity-related investments were \$2,285 with system upgrades of \$1,556 and system expansion-related investment of \$1,956. Non-distribution system investments were \$5,026 and included information technology, fleet vehicles, smart meters and conservation and demand management capital initiatives.

### ***Liquidity and Capital Resources***

Enersource's primary sources of liquidity and capital resources are funds from operating activities as well as an established banking line of credit, if required. These resources are primarily used for capital investments to maintain the integrity of the electricity distribution system and for servicing interest expense on debt.

Enersource's bank line of credit in the amount of \$50,000 was not utilized during 2008 and with a strong cash position, stable cash flows and a positive future outlook there is little likelihood of utilization of this facility in 2009.

In their report dated October 31, 2008, DBRS confirmed Enersource's debt rating at 'A', supported by stable financial metrics attributable to generally consistent earnings, cash flows and debt levels. Standard & Poor's raised the rating on the Borealis-Enersource series bonds to 'A' from 'A-' in their June 3, 2008 report, citing Enersource's excellent business risk, regulated cash flows and growing customer base as factors for the change.

### ***Future Capital Expenditures***

Enersource's capital and intangible asset expenditures in 2009 are projected to be \$55,800 (\$49,400 in 2010 and \$42,700 in 2011). The overall planned capital and intangible asset expenditure levels reflect infrastructure investments required to construct and maintain electricity distribution assets. Additional capital and intangible asset investments include the deployment of smart meters and the replacement of Enersource Hydro's Customer Care and Billing System. Current cash balances and future cash flows from operations are expected to be sufficient to fund all capital requirements.

### ***Contractual Obligations***

The following table presents a summary of debt and other major contractual obligations as at March 31, 2009:

Mar 31, 2009 (\$000's)	Total	2009	2010/2011	2012/2013	After 2013
Due By Year:					
Long-term debt*	290,000	-	290,000	-	-
Interest on long-term debt	42,579	18,241	24,338	-	-
Capital purchase obligations	10,719	10,194	525	-	-
Operating leases	80	80	-	-	-
Total contractual obligations	343,378	28,515	314,863	-	-

- The Borealis – Enersource series bonds mature in May, 2011. The long term debt is expected to be refinanced at that time.
- The Long-term debt of \$290,000 excludes debt issuance costs of \$4,336.

### ***Related Party Transactions***

Enersource's operations included the provision of electricity and services to its principal shareholder, the City of Mississauga (the "City") in the normal course of business. Electricity was billed to the City at the prices and terms established between the City and its electricity retailer. Street lighting maintenance and construction services were provided at a fixed price or on a time and materials basis at an exchange amount, being that amount agreed to by the parties. A summary of amounts charged by Enersource to the City for the three-months ended March 31, 2009 is as follows:

	2009	2008
Electrical Energy	\$3,379	\$2,507
Street lighting Maintenance and Construction	1,935	1,334
Street lighting Energy	<u>1,730</u>	<u>1,380</u>
Total	7,044	5,221

At March 31, 2009, accounts payable and accrued liabilities due to the City were \$2 (2008 - \$8). Accounts receivable due from the City was \$3,454 (2008 - \$2,067).

Enersource was charged \$391 in the three-months ended March 31, 2009 (2008 - \$384) by the City for property taxes.

Enersource charged Borealis \$2 (2008 - \$2) for an access agreement in 2009. These transactions were recorded at the exchange amount, being the amount agreed to by the parties. At March 31, 2009, accounts receivable included \$nil (2008 - \$1) due from Borealis.

Enersource was charged \$1,959 in 2009 (2008 - \$735) by Enerpower Corporation, an organization for which Enersource has a 10% minority ownership interest, for the construction of distribution system infrastructure. Enersource received a dividend from Enerpower Corporation of \$nil in 2009 (2008 - \$10).

### ***Quarterly Results of Operations***

The following table sets forth unaudited quarterly information for each of the eight quarters beginning April 1, 2007 and ending March 31, 2009. This information has been derived from Enersource's unaudited interim Consolidated Financial Statements. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance. The consumption of electricity generally follows the number of cooling degree days during the summer months and heating degree days during the winter months, and therefore energy related revenue, all other things being equal, tends to be higher during the first and third quarters.

	2009/2008				2008/2007			
	<u>31-Mar</u>	<u>31-Dec</u>	<u>30-Sep</u>	<u>30-Jun</u>	<u>31-Mar</u>	<u>31-Dec</u>	<u>30-Sep</u>	<u>30-Jun</u>
Total Revenue	\$163,299	\$162,088	\$177,979	\$163,464	\$167,216	\$172,676	\$181,975	\$162,361
Total Expense	<u>158,747</u>	<u>157,027</u>	<u>171,943</u>	<u>159,607</u>	<u>162,948</u>	<u>170,412</u>	<u>177,309</u>	<u>158,815</u>
Net Income	<u>\$4,552</u>	<u>\$5,061</u>	<u>\$6,036</u>	<u>\$3,857</u>	<u>\$4,268</u>	<u>\$2,264</u>	<u>\$4,666</u>	<u>\$3,546</u>
Dividends	-	\$8,980	-	-	-	\$10,336	-	-

### ***CRITICAL ACCOUNTING ESTIMATES***

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Estimates and assumptions are based on historical experience, current conditions and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making estimates about the carrying values of assets and liabilities as well as identifying and assessing our accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates and assumptions.

Management believes the following critical accounting estimates involve the more significant estimates and assumptions used in the preparation of the financial statements:

#### ***Unbilled Distribution Revenue***

Distribution revenue attributable to the delivery of electricity is based upon OEB approved distribution tariff rates and is recognized as electricity is delivered to customers, which includes an estimate of unbilled revenue, representing electricity consumed by customers since the date of each customer's last meter reading. Actual electricity usage could differ from estimates.

#### ***Employee Future Benefits***

The total change in the employee accrued benefit obligation for the first quarter ended March 31, 2009 was \$132 as compared to \$147 for the first quarter ended March 31, 2008.

## ***NEW AND EMERGING ACCOUNTING PRONOUNCEMENTS***

### ***Credit risk and the fair value of financial assets and financial liabilities***

In January 2009, the CICA issued Emerging Issues Committee (“EIC”) 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which clarifies that the credit risk of counterparties should be taken into account in determining the fair value of derivative instruments. EIC 173 is to be applied retrospectively without the restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual statements for periods ending on or after the date of issuance of this Abstract. This change has not had a material impact on results of operations.

### ***Rate Regulated Future Tax Assets and Liabilities***

Effective January 1, 2009, Enersource adopted CICA Handbook Section 3465, “Income Taxes” which required Enersource Hydro to record income taxes using the asset and liability method. Under this method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from settlement or recovery of assets and liabilities at their carrying values. The adoption of this section required Enersource Hydro to recognize future income tax liabilities and assets and a corresponding regulatory asset or liability for future income taxes expected to be recovered from or refunded to customers through future distribution rates. The adoption of this section resulted in an increase in future income tax assets of \$48,621, an increase in regulatory tax liability of \$46,808, an increase in regulatory liabilities of \$795, a decrease in PILs of \$372 and an increase in retained earnings of \$646.

### ***Capital Disclosure***

Enersource’s objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis, at reasonable rates, and to deliver the appropriate financial returns to its shareholders.

Enersource Hydro was deemed by the OEB to have a capital structure that was funded by 60% long term debt and 40% equity. Effective May 1, 2008 the deemed capital structure for Enersource Hydro changed to 56% long-term debt, 4% short-term debt and 40% equity. The OEB applies this deemed structure as a basis of determining how capital is funded for rate setting purposes only. The actual capital structure for Enersource Hydro may differ from the OEB deemed structure.

Enersource has covenants typically associated with long-term debt. Enersource is in compliance with all credit agreement covenants and limitations associated with its long-term debt.

The Corporation has the following material covenants associated with its long-term debt.

- (i) The consolidated financial statements must be audited, comply with GAAP and be filed directly on The System for Electronic Document Analysis and Retrieval (“SEDAR”).
- (ii) The Corporation shall make all payments of principal, interest and, as applicable, premiums in favour of Borealis Infrastructure Trust.

- (iii) The Corporation shall not incur, issue or become liable for obligations that exceed 75% of the total consolidated capitalization or provide another security interest upon the same assets as the debt.
- (iv) The Corporation shall not directly or indirectly invest in energy retailing unless at the time and after giving effect to the proposed investment:
  - (a) No default or event of default shall have occurred and be continuing, or shall occur;
  - (b) The aggregate amount of all such investments made shall not exceed the greater of (i) \$20,000 and (ii) 5% of consolidated net worth.

### ***Future Accounting Changes***

#### ***Transition to International Financial Reporting Standards (IFRS)***

The AcSB has adopted a new strategic plan that will have Canadian GAAP converge with IFRS, effective January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of the amounts reported by Enersource in its interim and year ended December 31, 2010 financial statements, and the opening balance sheet as at January 1, 2010. In May 2008, the Canadian Securities Administrators issued Staff Notice 52-320, which provides guidance on the disclosure of changes in expected accounting policies related to the change over to IFRS. According to the notice, Enersource is required to provide an update of the Corporation's IFRS conversion plan in each financial reporting period prior to conversion on January 1, 2011. Enersource is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on the future financial position and results of operations is not reasonably determinable.

Enersource has commenced development of its transition strategy from Canadian GAAP to IFRS and has established a formal governance structure consisting of a Steering Committee and a Project Team. The Steering Committee consists of senior level management from information technology, engineering, internal audit and finance. Enersource has also engaged an external expert advisor.

Enersource's IFRS conversion project consists of four phases: awareness, assessment, design and implementation. The awareness and assessment phases have been completed and included training for key stakeholders, identification of major impacts on systems, process and internal controls and completion of a detailed systematic gap analysis of the accounting and reporting differences between Canadian GAAP and IFRS. Enersource has determined that the differences with the highest potential impact include accounting for fixed assets, regulatory accounting, revenue recognition, employee benefits and the initial adoption of IFRS under the provision of IFRS 1, First-time Adoption of IFRS.

A detailed project plan has been completed including key milestones for the design and implementation phases. During 2009 and early 2010, Enersource will determine the projected impacts of adopting IFRS on its financial statements after consideration of the options available under IFRS 1, develop its significant accounting policies under IFRS, and finalize the determination of the systems, process and internal control impacts of converting to IFRS. It is anticipated that the adoption of IFRS will have an impact on information system requirements. Enersource is currently assessing the need for system upgrades or modifications to ensure a seamless conversion to IFRS.

The OEB has also begun its own IFRS project to determine if there are any changes that need to be made to regulatory reporting requirements in response to IFRS. On May 8, 2008, the OEB announced the creation of an IFRS Consultation which will provide an opportunity to work with industry participants to identify transition issues and rate-setting concerns and suggest how those issues and concerns might be addressed. In the event that regulatory assets and liabilities are not permissible under IFRS, this could result in increased volatility in Enersource Hydro's earnings from that reported under current Canadian GAAP. As such, we are promoting the need for alternate regulatory strategies for the OEB.

## ***SELECTED ANNUAL INFORMATION***

The following table sets forth annual information for each of the three years ended December 31, 2006, 2007, and 2008. This information has been derived from the audited annual Consolidated Financial Statements.

Consolidated Statements of Income	2008	2007	2006
Total revenues <sup>1</sup>	\$670,747	\$696,491	\$680,318
Net income	19,222	13,970	17,226

  

Consolidated Balance Sheets	2008	2007	2006
Total assets <sup>2</sup>	\$653,906	\$628,092	\$613,789
Total long-term debt	288,735	288,556	288,122
Cash dividends declared	8,980	10,336	8,900

<sup>1</sup>Total revenue consists mainly of electricity passed through at cost to customers. Fluctuations in energy revenue are caused by variances in consumption and/or price.

<sup>2</sup>Total assets & long-term debt for 2006 reflects the reclassification of deferred debt issuance costs in 2007, applied retroactively.

## ***RISK MANAGEMENT***

Enersource utilizes a risk management program to mitigate business risk while optimizing shareholder value. A corporate risk assessment is undertaken annually under the guidance of Enersource's Audit Committee. This annual assessment identifies all operating risks for the organization and categorizes these risks according to significance and probability of occurrence. Risks that are deemed significant with a moderate to high probability of occurrence are analyzed for the purpose of developing mitigating strategies and implementing or validating operational controls. The annual risk assessment is a comprehensive review of all risks and mitigating controls to derive "residual risk".

### ***Regulatory Risk***

Enersource Hydro's operations are regulated by the OEB. The OEB exercises statutory authority over matters such as operational performance, rate setting, and financial returns.

The Ontario Government has provided a revenue adjustment mechanism to compensate utilities for lost revenues as a result of conservation programs. Until the rate application for recovery of lost revenues is submitted and appropriate recovery rates are permitted by the OEB, distribution revenues lost as a result of conservation programs remain at risk.

On July 16, 2004, the Ontario Government announced that all electricity consumers in Ontario will have a smart meter no later than December 31, 2010. The OEB's smart meter implementation plan identifies local distribution companies as the source of funding for the supply and installation of the smart meters. Enersource Hydro is committed to executing the MEI's smart meter initiative to the full extent of OEB

approvals. Notwithstanding the April 12, 2006 OEB announcement regarding the smart meter program, the recovery and recognition of all smart meter revenue and associated costs will dictate the timing and amount of future expenditures.

On February 23, 2009, the Ontario Government announced the proposed Green Energy Act, 2009 (the "Proposed Act"). Among other things, the Proposed Act requires that electricity distributors provide priority access to its electricity distribution system for renewable electricity generation facilities and provides that the MEI may issue a directive to the OEB to assign energy conservation and demand management targets to distributors, which may be a condition of the distributor's license. The Proposed Act and its associated regulations are not enacted, and, as such, its impacts on the operations of Enersource Hydro are not determinable at this time.

### ***Electricity Supply Risk***

At peak consumption periods the Independent Electricity System Operator ("IESO") may issue public appeals for reduced energy consumption with warnings of brownouts or blackouts if consumption is not reduced. In the event of a brownout or blackout in Mississauga due to electricity consumption levels exceeding available supply from the IESO, Enersource Hydro's distribution revenue would be adversely affected and as such, represents financial risk to the company.

### ***Environmental Risk***

Enersource is subject to numerous environmental regulations. As part of Enersource's risk mitigation strategy, an environmental assessment is currently underway. At March 31, 2009, the Corporation identified four sites and accrued \$250 for further testing and soil remediation.

Environment Canada has issued new regulations governing the management of PCBs. Enersource is in the process of determining the impact of the new regulations. On December 1, 2008, the OEB approved Enersource Hydro's request to defer any expenses that may be incurred to comply with the new regulations. As at March 31, 2009 the Corporation deferred \$32 regarding compliance with the new regulations.

### ***Financial Instrument Risk***

Exposure to market risk, credit risk and liquidity risk arises in the normal course of Enersource's business.

#### **(a) Market Risk**

Market risk refers primarily to risk of losses that result from changes in commodity prices, foreign exchange rates and interest rates. Enersource does not have commodity risk and its foreign exchange risk is limited to US Dollar cash and cash equivalent holdings of \$2,723 as at March 31, 2009.

Distribution rates and charges are currently based on a revenue requirement less other income, which includes interest income. The difference in the interest revenue reduction and the actual interest income earned by Enersource is expected to be insignificant.

(b) Credit Risk

Financial assets have an element of credit risk in that a counter party may fail to discharge its obligation, causing a financial loss. Enersource's distribution revenue is earned on a broad base of customers. As a result, Enersource did not earn a significant amount of revenue from any individual customer.

As at March 31, 2009, there were no significant balances of accounts receivable due from any single customer.

Enersource manages counterparty credit risk through various techniques including the limiting of total exposure levels with individual counterparties consistent with Enersource's policies and the monitoring of the financial condition of counterparties. Short-term investments held as at March 31, 2009 met the credit exposure limits specified under Enersource's Investment Policy.

Management believes that the credit risk of accounts receivable is limited due to the following reasons:

1. There is a broad base of customers with no one customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance;
2. Enersource Hydro as permitted by the OEB's Retail Settlement and Distribution System Code may obtain a security deposit or letter of credit from customers to mitigate the risk of payment default; and,
3. Enersource Hydro included an amount for accounts receivable write-offs within operations, maintenance and administration expense for rate setting purposes.

(c) Liquidity Risk

Liquidity risk is the risk that Enersource will not be able to meet its financial obligations as they come due. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations, as well as an established \$50,000 banking line of credit, if required. Short-term liquidity is currently sufficient to fund normal operating requirements.

***Economic Risk***

The current economic uncertainty and financial market volatility may have an impact on Enersource. The primary financial impact Enersource may experience is higher customer payment defaults, resulting in larger accounts receivable write-offs. Management believes that its current credit risk policy and customer credit monitoring procedures mitigate to the fullest extent possible, the potential of a significant financial loss. If a significant loss is incurred, Enersource would apply to the OEB to recover the loss through future distribution rates.

The Borealis – Enersource bonds mature in May, 2011 and are expected to be refinanced at that time. Enersource believes that the risk in any change in interest rates on refinanced debt is insignificant as the impact would be reflected in future distribution rates.

***OUTLOOK***

Enersource Hydro has received its electricity distribution tariff of rates and charges on March 16, 2009 for the rate period beginning May 1, 2009 through April 30, 2010. This forward looking distribution rate adjustment is expected to further stabilize income and cash flow streams.

On April 15, 2009, the OEB announced pricing and threshold changes for regulated price plan customers to take effect May 1, 2009. Electricity prices will increase from \$0.056/kWh to \$0.057/kWh for the first 600kWh consumed in a month and from \$0.065/kWh to \$0.066/kWh for consumption in excess of that amount. The threshold for non-residential customers that are eligible for the regulated price plan will remain unchanged at 750 kWh per month throughout the year.

On April 22, 2004, the Supreme Court of Canada ruled on the case of Gordon Garland v. Enbridge Gas Distribution Inc. (“EGD”). The court concluded that the late penalties, which the natural gas utility had charged customers from 1994 to 2002, exceeded legal limits and amounted to criminal misconduct. A settlement was reached between the parties on July 20, 2006 which proposed that EGD would pay approximately \$21,200 including a \$9,000 donation to the Winter Warmth Fund prior to the end of January 2007, approximately \$10,200 for the plaintiff’s legal fees and expenses, and a payment of approximately \$2,000 to the Class Proceedings Fund, operated by the Law Foundation of Ontario. The Supreme Court, on review of the proposal, directed that certain changes be made to the agreement. The Ontario Superior Court approved a settlement in December 2007 and the OEB ruled in February, 2008 that EGD can now recover \$22,000 from ratepayers because the costs resulted from having to defend late-payment penalties established by OEB orders. The Electricity Distributors Association is reviewing the potential implications of the decision on the electricity distribution sector. It is too soon to assess if or to what extent the EGD decision will impact the electricity distribution utilities and, as such, any potential exposure for Enersource Hydro is indeterminable at this time.

The shareholders of the Corporation were parties to a Put Agreement by which the City held an option to sell its shares to BPC Energy Corporation (“BPC”) in accordance with the Agreement. The effective period for this option commenced July 1, 2008 and expired on December 31, 2008. On January 28, 2009, the City decided to pursue the re-negotiation of certain terms of the shareholders agreement with BPC. There have been no further developments regarding the re-negotiations at this time.

Enersource will continue to focus on operational excellence, customer care and shareholder value in its regulated and non-regulated businesses with a continued emphasis on growth and financial stability.

## ***ONTARIO SECURITIES COMMISSION REQUIRED DISCLOSURES***

### ***Certification of Disclosure in Issuers’ Annual and Interim Filings***

The Corporation is a reporting issuer and, as such, must comply with Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers’ Annual and Interim Filings* (the “Instrument”). Enersource is further sub-classified as a venture issuer and our certifying officers have reviewed and certified the interim filings for the quarter ended March 31, 2009.